



THE big reset

The Report of the Premier's
Economic Recovery Team

Executive Summary

MAY 2021

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Foreword

I am honoured by the opportunity Premier Andrew Furey has given me to lead this Review. I have returned to my home province with fresh eyes and a strong belief that this Economic Recovery Plan will benefit my fellow Newfoundlanders and Labradorians.

The province is in financial trouble. Over the past decade the Provincial Government has continued to borrow money to fund its annual expenditures. This is unsustainable and has to be urgently addressed.

Newfoundlanders and Labradorians are well placed to put the province on a more sustainable financial footing. The province has exactly the right assets to lead as the world grapples with the imperative of our generation, namely, the need to transition economies everywhere to net-zero carbon emissions. This is one of the big resets that is proposed in this recovery agenda and in this essential financial improvement plan.

The Big Reset is a transformational plan for Newfoundland and Labrador that attempts to tie all aspects of the economy and society together to meet some of the biggest challenges and opportunities ever faced by the province. The technological revolution and the revolution related to climate change require a shift in how the province and the world does business. At the same time, there is a need for greater accountability and a better, leaner government.

The Big Reset also requires a change in how government manages its financial affairs. The financial situation must be addressed before the province can realize its potential. This will be difficult to do under existing structures. Government and its operations must be reimagined. The province's young people need to be positioned better to assume the responsibilities that these changes place upon them and this requires a change in how they are educated. With the aging of the population and the

decline in birth rates, young people will have to be more productive and better educated as they build and power the new economy.

Over the past six years, the forces demanding that climate change be prioritized have gathered strength. What were once general governmental targets for reducing emissions have become specific plans with timetables and budget allocations. Green energy projects have been lifted off the drawing boards and into reality.

Over the coming decades, trillions of dollars in capital are expected to be allocated by corporations and governments toward this effort. PERT's recommendations seek to put the province in the strongest possible position to compete for green investment. The province's future growth depends directly on its determination to take the steps that will take advantage of this opportunity.

PERT has spent hundreds of hours in discussion with Newfoundlanders and Labradorians. We have read their notes and submissions, as well as numerous government studies and other reports. From all of this information and insight, PERT has developed a plan that provides for both controlling the province's expenditures and encouraging economic growth.

The province's fiscal situation must be brought under control. Government must lead the way, but it cannot do so without the support of the people of the province.

Newfoundlanders and Labradorians have always come together during difficult times. This is the time to show the rest of Canada and the world the strength, resilience and tenacity of the province. A federal bailout is not the answer. A bailout, and all that it implies, will have a negative long-term impact.

It is time now to acknowledge that the model of service delivery developed over the past 45 years is no longer the best one. Many components of our system are not working and are not generating the outcomes the province needs. Times have changed

dramatically. Many public services can be offered in better and in more efficient ways that will improve outcomes. Spending more and more money has not fixed the system. A new approach is required. A better approach is available.

Even with a roadmap for change, many challenges lie ahead. Provincial Government efforts to enact new plans are generally not sustained. The enthusiasm of embarking on a new direction is lost as bureaucracy and individual self-interest take over. The provincial bureaucracy is so large that many hands touch a piece of work and end up slowing processes and impeding progress. A new model of accountability and delivery is required at all levels in the Provincial Government.

Government needs to bring rigor to its spending. Other jurisdictions have used balanced budget legislation to bring discipline to governments. The province today places all oil and gas royalties into its current revenues. A Future Fund needs to be established, similar to that in Norway. Fifty per cent of volatile oil and gas revenues should be placed in this fund, as well as all revenues from any asset sales. The Future Fund would be used only to pay down debt or to fund the green economy transition.

The expectation that Government can directly create long-term jobs is misplaced; this has been demonstrated to be an impossible goal since Confederation. Change means that less is expected and required from Government and more must come from the people of the province and from entrepreneurs.

The industrial revolutions that are before us in technology adoption and the greening of the economy are agents for substantive change. The province needs to adapt, become a leader in these areas, and create the framework for nation-leading economic growth.

Newfoundland and Labrador needs a different social compact to meet the changing needs of citizens. The province's social compact must put communities in the forefront and remove obstacles to their efforts to organize themselves and the services they need. Given low birth rates and the fastest aging of the population in Canada, it is

critical the province's education system prepares children to contribute more than was expected of any previous generation. The province's children will have to look after more non-earning people, the important shifts attributable to climate change and a debt and liability load that is unprecedented.

We hope this plan encourages conversation. Maybe it will change some points of view. Most importantly, we hope it brings Newfoundlanders and Labradorians together for a focused discussion. Newfoundland and Labrador needs everyone pulling in one direction, with the energy and grit the province is famous for, to play a leading role in the big resets required.

This report focuses on changes that will make the most difference in driving a revitalized economy. This plan constitutes a full agenda for everyone in the Provincial Government, for the leaders of public institutions, for the private sector, for the province's unions, and for everyone who lives in Newfoundland and Labrador.

Acknowledgements

The work has been a pleasure and greatly enhanced by the wisdom, experience, and commitment of the excellent team the Premier assembled. Our team brought deep expertise in many sectors of our economy, long community ties, and leadership in many of the areas essential for a prosperous future. Most importantly, they brought a love for this province.

Our members are:

| | | | |
|------------------|-------------|-----------------|-----------------|
| Brendan Brothers | Moya Cahill | Zita Cobb | Oral Dawe |
| Philip Earle | Earl Ludlow | Richard Kostoff | Chief Misel Joe |
| Gary Mooney | Iris Petten | David Vardy | |

Our work would not have been possible without the dedicated staff that included Brian Delaney, Rose AuCoin, Gerald Crane, Aisling Gogan, Sheryl Ireland, Mary McCarthy, Brian O'Neill, Kelechi Owasi, and Rebecca Thistle. As well, I would like to thank our editor Stephanie Porter for her efforts.

Dame Moya Greene, OC, DBE
Chairperson

May 6, 2021

Introduction

The most recent disruption in economic activity has resulted from the measures put in place to stem the spread of the COVID-19 virus. Since early 2020, Canada—like countries all over the world—has instituted travel restrictions, closures of non-essential businesses and temporary lockdowns. National and provincial measures have impacted consumer spending, tourism and employment. The global decline in the price of oil has drastically affected the oil and gas industry at home and abroad.

Newfoundland and Labrador's current grave financial situation predates the COVID-19 pandemic; it has been over a decade in the making. The Province spent oil and gas royalties as an annual revenue source, it funded Muskrat Falls, it expanded government salaries and employees, and it did not adjust expenditures when royalties declined.

The province's economy began a positive transformation when offshore oil and gas production began in 1997. Significant gains have been made in Gross Domestic Product (GDP), employment, and income. At the same time, because so much of this economic growth is tied to oil and gas production and commodity prices, nominal and real GDP growth have become more volatile.

This volatility is carried over into provincial government revenue. At the same time that the province's economy has become dependent on oil and gas, traditional resource sectors have struggled. The fishery and forestry sectors, in particular, as well as tourism are not realizing their full potential from an employment and value perspective.

The province also faces a number of broad social challenges: many communities are in decline, the population is aging, and dependence on government transfers to individuals remains unsustainably high.

Many Newfoundlanders and Labradorians continue to think of the provision of government services and government's core business in the same ways as in the 1960s and 1970s. This framework is no longer feasible. People of the province expect government to be everything to all people and this has displaced the private sector.

As PERT undertook its work, four key areas of strategic focus and required action became clear for Newfoundland and Labrador to realize its potential. These big resets include:

1. Improving accountability and transparency in decision-making,
2. Building a greener, technologically advanced economy,¹
3. Refocusing the social compact to concentrate on the challenges of today and tomorrow, and
4. Implementing a solid fiscal plan.

This Executive Summary contains only a partial list of the 78 recommendations contained in PERT's main report. PERT's work to date is summarized in the following documents:

- Executive Summary: The Big Reset
- The Big Reset: The Report of the Premier's Economic Recovery Team

¹ The green economy is generally defined to include renewable (and low carbon) energy supply, reduced demand for energy through more stringent building codes, increases in energy efficiency and conservation, energy substitution in the transportation sector, sustainable resource management, development of "negative" greenhouse gas emissions opportunities such as improved forest carbon storage and underground carbon storage, and improved environmental management and protection.

The State of Affairs: An Unsustainable Fiscal Situation

The Government of Newfoundland and Labrador is facing an unsustainable fiscal situation that requires immediate action. Spending is out of control and the Provincial Government is paying out far more than its revenue allows, adding debt to cover its basic needs. This untenable situation must be addressed.

Running this sparsely populated province and maintaining its infrastructure is expensive. An abundance of government-run infrastructure is spread across significant geography, including 259 schools, over 180 health care sites, 12 ferry routes, 20 airstrips, over 9,000 kilometres of highway, 1,300 bridges, 12,000 kilometres of forest access roads, over 800 government buildings and structures, and thousands of kilometres of electricity transmission and distribution lines. All of this for a relatively small population of 522,000 people.

Most of this infrastructure was built when the province had a young and growing population. At the peak of the baby boom, Newfoundland and Labrador had six children for every senior; now it has just 0.6 children for every senior. The Province must address this dependency ratio - where a smaller younger population will have to support a larger, substantially older population. More seniors means that, financially, more will be required from the younger generation to fund and maintain services. While the total population is expected to remain fairly stable over the next 20 years, the number of seniors is projected to increase by 40 per cent.

Past failures in encouraging private sector economic development were compensated for by hiring more public servants. Today, technologies have advanced so that services can be offered in new ways.

The fiscal challenges are entirely of the province's own doing. The province has continued to spend beyond its means despite a substantial decline in revenues.

The following is a synopsis of Newfoundland and Labrador's fiscal position.

- Newfoundland and Labrador has the highest per capita expenditures and net debt of any province in Canada.
- Successive governments have not sustainably managed the province's affairs and have ignored the warnings of its creditors and successive Auditors General.
- Newfoundland and Labrador has posted a deficit in 61 of the 71 years since Confederation. With the exception of one year, the years of surplus were recent and driven by royalties from offshore oil. High oil prices resulted in Hibernia, White Rose, and Terra Nova reaching royalty payout, bringing surpluses that peaked in 2008-09 at \$2.35 billion.
- In those years of surplus, the Province Government did not have a plan for the future. Oil prices have always been volatile. As revenue from offshore oil increased, the Province spent more money. Most of it went to the salaries of public servants through increased hiring, wage increases well beyond inflation, and offers of more government services. Expenditures grew from \$4.97 billion in 2004-05 to \$8.97 billion in 2020-21, an 80 per cent increase.
- Newfoundland and Labrador's annual financial shortfall represents approximately 25 per cent of its revenue.
- Cash deficits in the last five years have averaged \$1.9 billion annually. The Provincial Government has added \$12.6 billion to its total debt over the past seven years.
- Unchecked, it is anticipated the Province will add over \$7 billion to the public debt over the next six years. This is \$2 billion

Expenditures have grown from \$4.97 billion in 2004-05 to \$8.97 billion in 2020-21, an 80 per cent increase.

Unchecked, the Province will add at least \$7.0 billion to the debt over the next 6 years. This is \$2 billion more than was added during the first 45 years of confederation.

more than was added to the public debt in the first 45 years of Confederation – the period in which most of the infrastructure in the province today was built.

- As at March 31, 2012, the Province had a net debt of \$7.8 billion (\$14,927 per capita), comparable to other Atlantic Canadian provinces and lower than the per capita net debt of Ontario (\$17,813) and Québec (\$20,949).
- Eight years later, Newfoundland and Labrador's net debt has almost doubled to \$14.4 billion, or \$27,575 per capita—by far the highest among provinces. Per capita net debt in other Atlantic Provinces ranges from \$14,000 to \$18,000, only slightly higher than 2012 levels.
- As an indicator, net debt is misleading. Net debt is gross debt minus financial assets. These assets are recorded at cost and may or may not reflect their true market value. Also, net debt does not include all of the other financial exposures of the Provincial Government, nor the debt of some of its entities.
- On a consolidated basis, the Province has a gross debt of \$26.1 billion. This does not include the debt of the Province's three businesses: Nalcor Energy, Newfoundland Labrador Liquor Corporation, and Atlantic Lottery Corporation. With the addition of their debt, Newfoundland and Labrador's gross debt is \$39.3 billion (\$26.1 billion + \$13.2 billion).
When contingent liabilities and other exposures of \$5.2 billion are added in, the total is \$44.5 billion.
- Adding in estimated borrowings to cover the 2020-21 shortfall of approximately \$2.8 billion, brings the total to \$47.3 billion.
- That means \$47.3 billion in financial exposure is sitting on the shoulders of a labour force of about 260,000 people and about 220,000 households. **It is the equivalent of \$182,000 for every worker or \$215,000 for every household in the province.**

Our total financial exposure is the equivalent of \$182,000 for every worker or \$215,000 for every household in the province.

- **This unsustainable situation predates the COVID-19 pandemic and is bigger than Muskrat Falls.** On March 20, 2020 Premier Ball wrote Prime Minister Trudeau:

To put it bluntly, our recent attempts to finalize our borrowing program, both short term and long term, have been unsuccessful. We have no other recourse to raise the necessary funds to maintain the operations of government including our health care system, especially at this critical time.

- Subsequently, the federal government through the Bank of Canada established the Provincial Bond Purchase Program to help provinces. Other provinces had similar problems during this time but Newfoundland and Labrador was one of the first to have trouble.
- If Newfoundland and Labrador's per capita program spending was in line with that of other provinces, program expenses would have been \$1.18 billion less in 2019-20. The budget would be close to balanced. While geography and demographics are often given as reasons for Newfoundland and Labrador's higher spending, it is difficult to argue away convincingly a gap of this size.
- If debt levels get too high, Newfoundland and Labrador is at risk of not being able to meet its financial commitments such as paying salaries, operating hospitals, offering other public services, or making legally required pension contributions.
- At a certain point this situation will become chaotic for the province. If the Provincial Government doesn't respond quickly on its own, and requires outside assistance, measures will have to be put in place by the Federal Government. However, the Federal Government will have to encourage prudence on the part of all provincial governments.

- Budget 2020 projects that Newfoundland and Labrador will spend over \$3 billion on health care in 2020-21, representing 37.7 per cent of total expenditures. The Provincial Government's second largest expenditure, according to Budget 2020, will be debt servicing at \$1.1 billion, or 12 per cent of all expenditures. If Nalcor's debt servicing costs are added, the total is \$1.5 billion.
- Newfoundland and Labrador has 102 provincial public service employees (including health and education) per 1,000 residents, the second most of any province. This compares to 105 per 1,000 residents in PEI, 99 per 1,000 residents in Nova Scotia and 83 in New Brunswick (2019 numbers). Between 1999-2000 and 2011-12, public sector salaries and employee benefits increased from \$1.5 billion to \$3.5 billion (an increase of 140 per cent). Currently, salaries and benefits cost \$3.49 billion and make up 41 per cent of all Government expenses.
- The Provincial Government has a substantial unfunded liability related to pension plans and employee benefits. The total value of unfunded pension liabilities as at March 31, 2020 is \$4.89 billion, comprised of an unfunded liability and promissory notes. The value of other employee retirement benefits is another \$3.29 billion. Together, these represent about \$8.18 billion of the \$44.5 billion of the Province's financial exposure.
- This problem cannot be solved by increasing taxes alone. Many of the taxes in the province are among the highest in the country. This needs to be considered when contemplating options for increasing revenue.

Newfoundland and Labrador needs to control its spending while building a strong economy and ensuring no one is left behind. This requires a bold plan. The province has all the essential ingredients to lead the nation in many areas: abundant natural resources, an educated workforce, and a strong, resilient population with a deep love for this province.

Expectations placed on government have to be more realistic. Many expect the Provincial Government to create jobs. The reality is that the Provincial Government needs to put a framework in place to encourage investment, business start-ups and private sector job creation, but it can't actually create jobs outside of the public sector.

Newfoundland and Labrador needs to control its spending while building a strong economy and ensuring no one is left behind.

This province's challenges can only be addressed with big resets:

First, **accountability and transparency must be improved in decision-making in all types of governance**: in the cabinet room, in the public service, in agencies and commissions, and in the boardrooms of corporations and major institutions, whether private or public. Transparency is important—as noted by American Justice Louis Brandeis's, “sunlight is the best disinfectant.” Citizens must ensure that leaders and Government spend wisely, use evidence to make decisions, and are open about how and why decisions are made.

Second, **the province must build a greener, technologically advanced economy**. By building on its strengths, the province can realize the greatest possible benefits from its rich hydroelectric, oil and gas, and other resource endowments. The province can be a leader in the transition toward a greener economy based on sustainable management and a transition to net-zero carbon emissions. In partnership with the Federal Government and the private sector, the province can take advantage of the opportunities this shift presents.

Third, the province must **refocus its social compact to concentrate on the challenges of today and tomorrow**. The province must ensure it has a world-class education system accessible to all, that its seniors are supported to have as much independence and self-determination as possible, and that its social programs treat people with dignity. Social programs must support individuals when they need it and facilitate entry or re-entry into the workforce.

Finally, **the province must control its fiscal situation and implement a solid fiscal plan.** If not, the province will miss most of the opportunities that lie ahead, or only receive a small portion of potential benefits. Without action, the province will be subject to the direction of its bond holders and/or the Federal government.

Newfoundland and Labrador can be one of the richest and most self-reliant provinces in the country. To achieve this, all of the province's citizens must work together, face the facts, focus on building stronger communities, and a sustainable future for all. Leaders will have to make sacrifices and lead by example. The result will be a stronger society for this and future generations.

Big Reset - Reimagining Government and Governance

Time and again, PERT heard calls for better accountability and transparency across all types of governance—in politics, the public service, unions, public and private corporations, and in agencies, boards and commissions.

The Leblanc inquiry into Muskrat Falls confirmed what most already knew: aspects of the Provincial Government's decision-making process aren't working. Leaders must make decisions with the long-term interest of this province at heart, and the public must be able to see how those decisions were made.

Recognizing the province's dire fiscal situation is not the obstacle to addressing the province's challenges. While many proposals for how to address the situation have been made—in this work and in other studies conducted over the past 25 years—finding the political will to take the necessary actions is a challenge that has yet to be met.

The job of a politician in this province is challenging given the large number of Members of the House of Assembly (MHAs) and the low population in the electoral districts. Local interest can be a powerful driver for action, but may not always serve the province as a whole. The election cycle hampers mapping long-term visions and the decision-making needed to support them.

Balanced Budget Legislation:
This legislation would encourage everyone, not only politicians, to work within a fiscal framework.

After years of deficits, a culture exists within the public sector, including in Crown-owned entities, that budgets are notional and deficits do not matter. This needs to change.

Given Newfoundland and Labrador's fiscal challenge and history of poor financial management, the province should adopt balanced budget legislation. This legislation would encourage everyone, not only politicians, to work within a fiscal framework. Balanced budget legislation has never existed in Newfoundland and Labrador. Every other Canadian jurisdiction (other than Prince Edward Island) has had balanced budget legislation of some form over the past 20 years. A model similar to the one used in British Columbia would likely work in this province.

PERT Recommendation: Enact Balanced Budget Legislation

The Provincial Government should introduce balanced budget legislation to indicate the importance of working to a set budgetary result:

- The model should recognize that government may not reach a balanced budget until five or six years and set this target in legislation;
- Five-year economic and fiscal projections should be provided with each budget;
- Meeting budgets should be mandatory for all departments, public institutions, agencies, boards, and commissions;
- A percentage of Ministers' compensation should be held back to ensure departmental and other entities meet established targets;

- A similar holdback should apply for Deputy Ministers and Assistant Deputy Ministers;
 - An external advisory group of experts should be established to review annual budgets; and
 - Only 50 per cent of oil and mineral royalties should be considered in expenditure planning; the other 50 per cent must be paid on debt or placed in the Future Fund.
-

PERT Recommendation: Create a Future Fund

The Provincial Government should create a Future Fund to support the transition to a green economy. The fund is to be:

- Established from 50 per cent of annual oil and mineral royalties and from the monetization of assets;
 - Only used to pay down debt and fund the transition to the green economy;
 - Used specifically for investment in pilot projects or major partnerships with corporations or the Federal Government, and not for general operations of government; and
 - Overseen by an external advisory group.
-

Government oversees hundreds of programs, services and grants in the economic and social policy sectors. Currently, no general evaluation framework exists for these programs and; as a result, outcomes are poorly understood and often not even measured.

Some programs within government continue to exist only because of inertia in the system. Programs and services should have goals and/or objectives and key performance measures where appropriate; regular evaluation will determine if these goals are being met. Program design must ensure that appropriate data are collected for evaluation. Most programs should by definition have “sunset” provisions. Unless specifically reviewed, a program should end after five years.

PERT Recommendation: Implement Program Evaluation

The Provincial Government should develop a program evaluation framework for all departments led by Executive Council to:

- Ensure that all programs are properly evaluated; and
 - Build in sunset provisions for programs as appropriate. This means that programs will necessarily end or be modified after five years, based on outcomes and unless the specific evaluation directs otherwise.
-

Mandatory Reporting

Transparency and accountability are intertwined. Together, they enable citizens to have an informed say about issues that matter to them, a chance to influence decision-making, and the ability to hold those making decisions to account.

As the province strives to capture external investment to avail of the opportunities arising from the global green movement, it is extremely important that establishments, both private and governmental, provide transparent and accountable reporting to allow global comparability.

Global reporting initiatives provide standards for reporting sustainability impacts in a consistent, comparable and credible way. One of the most widely used sustainability reporting framework in the world, the Global Reporting Initiative resulted from the convergence of several global movements, and its adoption accelerated after 2008.

The 2008 financial crisis brought considerable pressure to improve the fairness of capitalism. Momentum grew to force companies to commit to environmental, social and governance (ESG) goals. As well, wider public and media demand for accountability by corporations and governments emerged. The ESG movement requires reporting on engagements with the community, levels of compensation throughout an organization, and relations with entities that supply goods and services to corporations and governmental bodies.

Global reporting initiatives have improved insight into the performance of corporations, non-governmental organizations (NGOs), government departments and other entities. Thanks to its influence, boardroom conversations, as well as conversations among financial lenders and social activists, now include considerations of environmental outcomes, the fairness of compensation practices, and the quality of oversight provided by boards. These initiatives have raised the bar significantly on transparency and as a result citizens are much better able to hold leaders to account.

Without a robust reporting and accountability framework, capital providers and corporations may be reluctant to invest in Newfoundland and Labrador.

PERT Recommendation: Adopt a Mandatory Reporting Framework

The Provincial Government should develop a new accountability framework for departments, agencies, boards, commissions, and other entities in receipt of public funds, including mandatory adherence to the Global Reporting Initiative Standards. This should also apply to private sector partners, non-governmental organizations, and unions.

Improving transparency also includes extending reporting requirements to all organizations. For Provincial Government employees, the cost of individual public service pension plans should be disclosed.

PERT Recommendation: Ensure Salary Transparency

The Provincial Government should:

- By law, greatly improve reporting requirements for all provincial government organizations. All wages, salaries, pension contributions by government and other compensation information for employees, contractual or otherwise, totalling over

\$80,000 annually, must be made public. This includes those in receipt of public service pensions;

- Require, on the same basis, that all not-for-profit organizations and union organizations make salaries and total remuneration packages public; and
 - Prohibit private sector companies and not-for-profit organizations in receipt of government funding from paying bonuses and dividends.
-

The province's fiscal challenges require demonstrated leadership by all elected members in the Provincial Government. The Premier, Cabinet Ministers, and MHAs across all parties must lead.

MHA's salaries have been frozen since 2008 and scheduled increases have not occurred as per legislation. PERT believes that MHAs have demonstrated restraint in their own remuneration. In 2009, for example, an 8 per cent salary increase awarded in July was reversed in December of that year. Similarly, a scheduled increase of 5.74 per cent was recently rejected by the House of Assembly and salaries have been frozen for the foreseeable future. This demonstration of leadership is an important signal to the people of the province that the House of Assembly understands the need for fiscal restraint.

Double-dipping of provincial pensions by MHAs should not be allowed. Where applicable, pension contributions made as an MHA would be added to their existing public service pension. MHAs without a public service pension would access the MHA pension on a defined collective contribution basis.

PERT Recommendation: MHAs and Public Sector Pensions

The Provincial Government should:

- Legislate that MHAs will no longer be allowed to receive multiple provincial government pensions. Pension contributions made by an MHA would be added to

any existing public service pension plan. MHAs without a public service pension would access the MHAs pension on a defined collective contribution basis².

Government Relationships with Public Sector Unions

The public service unions in Newfoundland and Labrador are an important part of the provision of services. Front line workers were not party to the decisions that created the province's financial crisis. However, their salaries, benefits, and pensions are liabilities of all taxpayers in the province. The compensation and benefits paid to many public sector employees are higher than those received by some doing similar jobs in the private sector workforce who must contribute to public sector benefits through their taxes.

It is important that Union members are part of the solution as Government implements change. Union members have definite views on issues within the system. They have operational insight that should be drawn upon. They will have definite views on the structure of the system, management's role in various parts of the different organizations, areas where efficiency can be realized and even how members are involved in decisions that affect them. It is therefore important that managers within the system proactively engage with the public sector unions and the union membership as this plan is developed.

² A collective defined contribution pension plan provides for a better return and more security of pensions than an individual defined contribution. Returns are generally better, given the large, pooled resource base and greater stability in the fund.

PERT Recommendation: Review Union Contracts and Compensation

The Provincial Government, working with public sector unions, should develop a new compensation package. Key elements should include:

- Pensions to be converted to a collective defined contribution plan in three years³;
- Measures to reduce the payroll base, such as a four-day work week for certain positions and creating seasonal positions targeted at peak demand periods;
- Wage freeze;
- Alternative service delivery models; and
- Development and promotion of work-from-home policies.

In the event that a negotiated settlement is not possible, the Provincial Government should use legislation that will be effective.

Focus on Core Services

Government must look critically at its current approach to determine which services it should continue to provide, which services it can discontinue, and which services, existing or future, could be offered by the private or not-for profit sectors. Many services offered by government can be delivered in a different way; some may be more responsive if customized for local needs.

Many Provincial Government services could be offered by private and not-for-profit sector enterprises more effectively and at lower cost. Moving some services to the private and not-for-profit sectors could create new businesses, support entrepreneurship, spur innovation and technology diffusion, in addition to building expertise. This expertise can then be exported to other parts of Canada and the world and help build a larger market base for local businesses.

³ In the United Kingdom, after three years of design work, legislation was passed to convert to collective defined contribution pensions. This provides much better retirement incomes than the individual defined contribution plans but is less expensive than defined benefit plans.

PERT Recommendation: Improve Service Delivery

The Provincial Government should redefine its role in the economy, the services it offers and how these services are delivered, with a focus on accelerating new technology adoption. The private and not-for-profit sectors should deliver services where appropriate.

Muskrat Falls

Space does not permit a review of what went wrong with the Muskrat Falls project. Justice Richard Leblanc did so in a six-volume report. The concept of Muskrat Falls might have been valid, but it was very badly executed. The province must learn from these mistakes.

Leblanc's report clearly outlines the failures of the Provincial Government and Nalcor in the conception, leadership, and implementation of this project. Nalcor officials clearly misled the people of Newfoundland and Labrador; those charged with overseeing and managing the project did not have the ability or experience to successfully do so.

To quote Justice Leblanc:⁴

Edmund Martin, Gilbert Bennett and the PMT [Project Management Team] frequently took unprincipled steps to help secure Project sanction. They concealed information that would undermine the business case reported to the public, to GNL and to Nalcor's board of directors ... There is no doubt that Nalcor, and in particular Edmund Martin, must be faulted for intentionally failing to disclose to GNL relevant information on costs, schedule and risk before Project sanction.

⁴ LeBlanc, Richard D. Muskrat Falls: A Misguided Project – Volume 1. Commission of Inquiry Respecting the Muskrat Falls Project, 2020: pg. 50.

While the development of the Churchill River is critical to grow the green economy, the end result of the Muskrat Falls project is potentially significant energy poverty for the people of this province. Those with fixed or low incomes will be the hardest hit unless mitigation measures are put in place.

The current operations model for Nalcor Energy is expensive and includes duplication in many areas. The organization's size and complexity does not reflect the small size of the province.

PERT Recommendation: Eliminate Nalcor Energy and the Oil and Gas Corporation

The Provincial Government should:

- Eliminate Nalcor Energy and merge its components into Newfoundland and Labrador Hydro in a phased approach, including the merging of power management, electricity sales, generation, and transmission;
- Eliminate the Oil and Gas Corporation, merge its exploration work into the provincial government, and merge its work related to the management of oil and gas assets and the Bull Arm Fabrication Corporation into Newfoundland and Labrador Hydro;
- Install a new Hydro Board that has the global experience and clear mandate to lead the merger of the components and the transition of Newfoundland and Labrador Hydro to a private entity;
- Ensure senior executives are seasoned professionals with relevant experience in organizational restructuring;
- Raise capital through the following measures:
 - Offer transmission and distribution assets to the private sector to either own or operate;
 - Offer the sale of island generation assets to the private sector;
 - Sell the Provincial Government's oil and gas equity interests when oil prices increase; and
 - Sell the Bull Arm Fabrication Site, currently owned by the Oil and Gas Corporation;

- Apply any monies raised from electrical and oil and gas assets to rate mitigation, the provincial debt, and the Future Fund; and
 - Review the role of the Board of Commissioners of Public Utilities (PUB) and expand it to cover all aspects of electrical industry management in the province as it relates to consumption.
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Big Reset – Industrial Revolution 5.0 and Transition to a Green Economy

The climate change challenge is, at its core, a technology challenge to transition to green energy that will be used to power new industry, as well as existing industries such as steel, cement, transportation, and petrochemical operations. This means the world is now facing a Fifth Industrial Revolution: the greening of the economy⁵.

Newfoundland and Labrador has assets that strongly position it to be self-sufficient in green energy and to drive investment and employment in low-carbon and green manufacturing and processing. Over the next 30 years, trillions of private sector dollars will be available globally to transform energy systems away from fossil fuels. The province has enviable renewable energy resources. New technologies and methods must be developed, as well as a better understanding of the costs, benefits, and the “how to” of a green transition.

⁵ The Fifth Industrial Revolution is a term coined by PERT. It is the transformation of the economy away from fossil fuels. Some include the greening of the economy in the fourth industrial revolution, which is related to technology adaption including robotics, Artificial Intelligence, and machine learning. PERT believes these to be separate.

Renewable Electricity

The province's significant electricity assets, including the underdeveloped Churchill River, can help power a new green economy for Canada. The entire Churchill River system, including developed and undeveloped resources, has capacity of about 8,500 MW (about 51,800 GWh) of clean hydroelectricity annually. This is about five times the current demand for electricity by all sectors in the entire province. The province's wind energy potential is largely untapped.

Although the Muskrat Falls project has greatly compromised the financial position of the province, the project will likely produce renewable energy for well over 100 years. The finished project will be an asset, allowing the province to leverage the energy it produces.

The Gull Island development can produce 2,250 MW (about 11,900 GWh) of energy. It is a significant opportunity and is yet undeveloped.

In 2041 the hydro contract between Churchill Falls (Labrador) Company and Hydro Québec ends. These huge hydro resources can be made available for powering existing and new industry.

Significant other climate-friendly opportunities include green mineral development, green manufacturing such as green steel (steel produced without fossil fuels), and a transformation of the transportation sector.

The world is moving to renewable energy in many forms including hydroelectricity, wind, solar, and hydrogen, and this province can be part of the solution. Hydrogen can be produced by hydro or other renewable electricity or natural gas using carbon capture. The province has an ample supply of both, and this opportunity must be explored now.

Hydrogen is the most abundant element in the universe. Hydrogen will likely transform the global energy market. It can be converted into energy using water and electricity or natural gas, and has an energy content almost three times that of gasoline. Hydrogen has many applications including generating electricity, heating buildings, fueling

automobiles, powering heavy equipment such as transport trucks or earth moving equipment, and fueling industrial processes such as manufacturing.

PERT Recommendation: Develop and Implement a Green Economy Transition Strategy

The Premier should champion a comprehensive 20-year Green Economy Transition Strategy. Funding for the Green Economy Transition should come from a portion of carbon tax revenues and the Future Fund. In the strategy, the Provincial Government should:

- Set goals, timelines, and measurable outcomes;
 - Define critical elements of the overall approach, including partnerships with the federal, provincial, and Indigenous governments, Indigenous organizations and communities, centres of academic excellence, green investors, non-governmental organizations, and other experts;
 - Develop a coordinated set of policies to accelerate technology development and adoption, target training and education on labour market opportunities, and create more supportive regulatory measures;
 - Package the Churchill River resources as a single opportunity, including Muskrat Falls, Gull Island, and the 2041 contract on the Upper Churchill, and seek federal government and private sector partners to maximize the economic value and its renewable energy potential;
 - Develop an inventory of other hydro opportunities on the Island and in Labrador, as well as wind and other renewable energy opportunities in the province;
 - Create a Centre of Excellence for Green Economy Transition to attract expertise, establish global networks, learn from other countries, monitor progress, and identify gaps and opportunities. This Centre would become a forum for leadership and development of practical applications to drive economic transition; and
 - Include a Renewable Energy Action Plan, an updated Climate Change Action Plan, and a Hydrogen Development Action Plan.
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Low-Carbon Transportation

Electric vehicles, including hydrogen fuel cell electric vehicles, are the next generation of personal use automobiles. When charged on a clean energy grid or powered by green hydrogen (generated from renewable electricity) or blue hydrogen (generated from natural gas with greenhouse gas (GHG) emissions captured and stored underground), these vehicles create virtually zero emissions from driving. Many automakers are planning to end production of conventional passenger vehicles and even more are developing electric models.

Level III (fast-charging) commercial electric vehicle charging infrastructure is critical for the long-term adoption of electric vehicles. Newfoundland and Labrador Hydro is installing 14 Level III stations across the province in 2021 and has plans to install at least 19 more. This is not likely to be sufficient. The province's current regulatory framework creates barriers to private sector investment in Level III electric vehicle infrastructure.

PERT Recommendation: Accelerate Transition to Electric Transportation

The Provincial Government should accelerate the transition to electric vehicles by:

- Introducing amendments to the Electric Power Control Act to facilitate private sector investment in electric vehicle charging infrastructure;
 - Introducing a rebate on the provincial portion of the HST for new battery electric vehicles purchased in the province; and
 - Introducing short-term tax incentives to the private sector to invest in Level III charging stations.
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Low-Emission Oil and Gas Development

The oil and gas industry is critical to the long-term economic future of Newfoundland and Labrador as the province and the nation transition to a green economy. A Green Economy Transition Strategy is urgently needed; such a strategy requires funds raised through continued development of the province's oil and gas resources. Moreover, experts agree that oil and gas will continue to be an essential energy source for the next 40-50 years.

The opportunity; however, for new development in this sector is time-limited, with a narrow window for discovery and development. Even for existing discoveries and developments of oil reserves, the window is swiftly closing.

The province's oil and gas resources can be produced with low-emission extraction processes, and can displace dirtier fossil fuels such as coal and high-emissions oil produced in other parts of the world. These oil and gas resources can also be part of the green economy by producing blue hydrogen; that is, hydrogen produced using natural gas with emissions captured onsite and permanently stored underground.

The Province has to move quickly to restart the oil and gas industry. Over the next six months the Provincial Government must develop and implement a plan to assist private sector operators to get all existing projects operational. It must immediately develop an effective, responsive and competitive regulatory regime to encourage exploration and development. The current system is slow and unresponsive due to the uncertainty of the regulatory framework and local benefit requirements. The province's approach to oil and gas development has resulted in a loss of value and revenue.

There is a limited opportunity for new development in this sector. Time is of the essence to realize the value of the province's vast oil and gas resources.

Since 2016, oil and gas and mining projects have not been eligible for the Atlantic Investment Tax Credit. With competitors increasing support for these sectors, the Province must have a competitive regime to attract investment. With a change in federal

rules, the Atlantic Investment Tax Credit could be used to encourage green investment in low emission oil and gas, as well as green mining and green manufacturing in Newfoundland and Labrador.

PERT Recommendation: Encourage Low-Emission Offshore Oil and Gas Activity

The Provincial Government should:

- Review its petroleum royalty and local benefits structures in 2021-22 to ensure they encourage exploration and development of new activity in the offshore, with net-zero targets wherever possible;
 - Request the Federal Government reinstate the Atlantic Investment Tax Credit for offshore petroleum projects and for green mining projects;
 - Require consultation with Indigenous governments and organizations and other marine users such as fisheries organizations and marine transportation companies; and
 - Require employment diversity, particularly to ensure women and people who are gender diverse, Indigenous Peoples, and People with disabilities can access well-paying jobs.
-

The slow and laborious government processes faced by businesses are often referred to as “red tape.” No one is suggesting that governments should make decisions that are unsafe for people or the environment, but governments need to make quick decisions. The Provincial Government’s decision making is not competitive with other parts of the world that develop oil and gas assets. The Province must remove the red tape associated with development in all sectors.

The regulatory framework for oil and gas has slowed progress, and the Province has not always been a good partner. Joint Federal-Provincial management of the industry

has produced a sprawling, slow, regulatory regime that has not been as successful as models found in Norway and other parts of the world.

In Newfoundland and Labrador, it can take up to two years for an exploration company to receive federal authorization to conduct an exploration program using seismic vessels and offshore mobile drilling units. In other jurisdictions, similar processes can take less than 90 days. Recent changes have been made but the processes appear to remain cumbersome.

PERT Recommendation: Ensure Competitive Oil and Gas Regulation

To ensure that Canada and Newfoundland and Labrador have a regulatory approach competitive with the rest of the world, the Provincial Government should work with the Federal Government to:

- Streamline regulatory processes to improve timelines and adjust regulatory approaches that make Newfoundland and Labrador uncompetitive; and
 - Give direction to the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) that the development of the offshore area is a priority function and offshore management must be consistent with the principles underpinning the Atlantic Accord.
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Supporting and Expanding Existing Industries

All of the province's industries must adjust to the new green economy. This will require considerable investment and focused effort by all participants. Being green goes beyond lowering GHG emissions—it also means sustainable development.

Newfoundland and Labrador's ocean and land resources have been mismanaged⁶, and all players—governments, business, and citizens—tend to blame others, instead of taking responsibility for the resources that belong to the province and that must be protected for future generations. Responsibility for the province's fiscal management has been pushed aside in much the same way. It is time to correct this type of thinking by charting a responsible and sustainable path forward.

Technology as the Enabler

The transformational technological changes of the Fourth Industrial Revolution accelerated with gains in computational power in the 1980s and the Internet in the 1990s. This revolution is characterized by machine learning, robotics and artificial intelligence. It encompasses the use of such technologies as LiDAR (Light Detection and Ranging) in topographical, flood risk, and geoscience mapping; advanced equipment in fish processing and sawmilling; technological systems in snowplows and fishing boats; software applications and e-commerce; advanced connectivity applications including Zoom, Webex, Teams, and Facetime; in-home alarm, temperature, and connectivity systems; and much more.

The biggest economic and fiscal risk for Newfoundland and Labrador is ignoring these technological advances and maintaining existing labour market and economic structures. Technology can power the delivery of government services such as health care and education. Wherever possible this should be done by the private sector.

Technology will drive the need for skilled workers and high-paying jobs in areas such as problem solving, software development, and design.

Skills training that better emphasizes science, technology, engineering, and mathematics (STEM) is required. STEM skills will be necessary to all future employees,

⁶ Woodland caribou populations, for example, are down 98 per cent from the highs seen in the 1980s. This is a resource controlled by provinces and grossly mismanaged. Similarly, the ocean ecosystem is not well understood and has not been managed with sustainability in mind. Northern cod is down 98 percent from its peak.

regardless of sector. The province's K-12 and public and private post-secondary educational institutions have to respond.

The technology sector in the province includes oceans technology, aerospace, defense, genetics, software design, e-learning, artificial intelligence, motion picture and video development, and other research and development. It is creating products and services that are deployed locally and exported internationally. The province's technology sector employed over 6,400 people and contributed almost \$1.4 billion in economic activity in 2017.

The biggest economic and fiscal risk for Newfoundland and Labrador is ignoring technological advances and maintaining existing labour market and economic structures.

The sector is supported by the Genesis Centre of Memorial University, a range of incubation centres, and strong industry organizations such as TechNL and OceansAdvance.

The technology sector will be dominated by small businesses. New start-ups must be encouraged, whether locally grown or relocating to the province.

Access to high-speed internet and cellular service is vital for education, business growth, communication, public safety, access to essential services, and employment opportunities.

Broadband access may be expanded through the use of Low Earth Orbit (LEO) and Mid Earth Orbit satellite technologies to reach areas where land-based infrastructure costs would be high or prohibitive. Low Earth Orbit (LEO) satellites and Mid Earth Orbit satellites are substantially cheaper than traditional satellites. These technologies can help solve challenges with capacity and speed found in most rural areas.

PERT Recommendation: Support the Technology Sector

The Provincial Government should:

- Introduce a three-year small business tax incentive for new start-up companies (or for new companies moving into the province). If a company leaves within five years, the credits are recovered;
 - Partner with the Genesis Centre, and potentially other groups, to administer the tax incentive program for companies that move through their incubation programs, and attract companies to this province through investor immigration initiatives; and
 - Request the federal government enhance infrastructure funding for high speed broadband, LEO satellite, and cellular service investments.
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Low-Carbon Mining

Newfoundland and Labrador's mining sector is one of the greenest in the world due to its reliance on hydroelectricity, and it can become greener. For example, IOC has one of the lowest carbon footprints per tonne of production in the global iron ore industry. Vale's Long Harbour processing facility produces nickel, copper, and cobalt using hydroelectricity.

Mining is energy intensive. New industry will require new sources of electricity which will result in investment in hydroelectricity and other renewables. Existing facilities can also be retrofitted with new investments.

Growth in the mining sector will require embracing opportunities created by the green economy and will require changes in technology, new infrastructure investments, and amendments to regulatory structures to ensure that the province remains competitive.

The mining sector is underdeveloped and many of our minerals, including rare earth minerals found in Labrador, will be in high demand to support technological innovation. Government should fast-track efforts in the vast unexplored regions of our province.

In the context of net-zero GHG commitments, manufacturers will likely pay a premium for raw materials, such as iron ore, that have been extracted with low emissions.

The proximity of the province's mines to potential hydrogen production facilities provides another opportunity. Hydrogen can potentially be used in iron ore pelletizing as a feedstock, or as a fuel for the conversion of heavy equipment to hydrogen-fuelled electric transport. The opportunity for green steel production should be actively explored. Steel manufacturers, for example, could locate next to the resource to access green energy.

PERT Recommendation: Encourage Low-Carbon Mining

The Provincial Government should encourage exploration through:

- Expansion of airborne geoscience surveys in priority areas of Newfoundland and Labrador;
 - Increased funding for the Junior Exploration Assistance Program;
 - Commencement of work related to geotechnical information with Québec, as provided for in the 2018 bilateral agreement with Québec; and
 - Implementation of a five per cent provincial flow through shares mechanism to attract new investment.
-

Sustainable Fishery

A sustainably managed ecosystem, including the oceans, is a central premise of a green economy. In the long term, well-managed fisheries can support Newfoundland and Labrador's rural economy and sustain many of the communities that have been dependent on fishing for over 500 years.

The fishery has changed significantly since the 1992 cod moratorium. It is a shadow of its former self, from an employment and rural sustainability perspective. The industry

appears to be in a stalemate on how to move forward, and has been for the past two decades.

Fisheries science needs to be improved and government must show leadership. The province has only one fish plant operating year-round. Many stocks are well below historical levels.

PERT Recommendation: Focus on Environmentally Sound Fisheries Management

The Provincial Government should develop an environmentally sound approach to the fishery including:

- Rebuilding the province's fisheries for the benefit of this and future generations;
- Building a strong base for rural communities through increased secondary and value-added processing;
- Developing policies that assert the Province as an equal custodian of its historic and adjacent marine resources for the benefit of communities; and
- Work with the federal government to give Memorial University (Marine Institute and Ocean Sciences Centre) the mandate to lead research in fisheries science, and fisheries management approaches in the province's adjacent waters.

The Provincial Government must require that the Federal Government take a proactive and transparent role in fisheries management based on research and sound environmental principles. This province's historical rights and the principles of adjacency in resource management must be adhered to by the Federal Government.

Aquaculture

Aquaculture can provide employment to help sustain rural communities. The province needs a responsive regulatory regime that protects the environment while allowing the industry to grow. Marketing and communication efforts are required to help Newfoundlanders and Labradorians understand the economic benefits of the industry.

In the past ten years, through its Capital Equity Program, the province has provided \$22 million to the aquaculture industry. Given the province's financial situation, and the many well-capitalized firms now in the industry, the Provincial Government should end its financial support programs for the industry.

The relationships between aquaculture advocates and advocates for wild salmon are complex and charged with emotion. Many angling groups want aquaculture ended completely or moved to land-based sites. Operators indicate that development can be undertaken in an environmentally sustainable manner. Once again, the existing regulatory framework and conflicting uses result in a stalemate.

The regulatory environment in this area, as in others, is often uncompetitive and provides little support for industry. Improved science is required to better understand the interaction between farmed and wild salmon and to develop mitigation strategies. Improved communication and meaningful consultation with other users, such as outfitters and anglers, is also necessary to find common ground.

PERT Recommendation: Facilitate Economically and Environmentally Sustainable Aquaculture

The Provincial Government should:

- End its Aquaculture Capital Equity Program;
- Streamline the regulatory decision-making processes for aquaculture licences and site approvals;

- In partnership with the Federal Government and aquaculture operators, improve the knowledge base on the interaction between wild and farmed salmon and seek methods to reduce interaction of the species; and
 - Require aquaculture operators, anglers, and outfitters to undertake or participate in stock assessments of adjacent rivers, including baseline data collection. Aquaculture operators should fund river monitoring in areas adjacent to fish farms.
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Forestry

More value can be derived from the forestry sector by providing focused support and improved production and marketing of the province's softwood lumber products. The forestry product sector once had 11 integrated lumber producers, three newsprint mills, and many small cottage sawmills. Only three integrated sawmills, one newsprint mill, and a handful of small cottage sawmills are still producing, at historic low levels. There is room for growth in this sector, through the adoption of technology and improved access to raw material from sustainably managed forests.

PERT Recommendations: Promote Investment in Forestry

The Provincial Government should:

- Promote investment opportunities globally and with local entrepreneurs to increase lumber production, value-added manufacturing, and alternative heating technologies, such as biofuels, wood chips, and wood pellets;
 - Invest in silviculture and forest management in coordination with the federal government on the **2 Billion Trees Commitment**;
 - Review the forest royalty and fee regime to maximize access to forestry resources while maintaining sustainability; and
 - Complete an updated wood supply analysis and a study related to carbon sequestration.
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Tourism

Tourism has significant room for growth. Adequate air access has always been a concern for the province and improving it needs to be government's first priority, post-pandemic, for the tourism sector. Getting to the province via ferry should also be more affordable. Great advertisements are a waste of money if people cannot get to the province easily.

The tourism sector is a key economic sector. It promotes the province's culture, arts, heritage and natural environment. Tourism encompasses activities within several service industries, including food and accommodation, and information, culture and recreation.

This is a beautiful pristine province, full of creative, welcoming people. Tourism is a global industry that requires easy and affordable air links, world class attractions, and authentic experiences. The number of visitors overall plateaued for Newfoundland and Labrador from 2016-2019, at a time when global tourism grew significantly. To reverse that trend will take a determined effort.

Some progress had been made toward improving air access in recent years. Most of this work has now been lost as a result of the pandemic. Forecasters suggest it may be two to five years before vacation travellers again seek to visit other parts of the world. Government, the tourism industry, and airport authorities must work aggressively to get back to where the province was, and then expand air access.

Many communities are challenged with the service provided by national air carriers. Service can be withdrawn based on the airline's model with little consideration for the local communities. Air travel is an essential service. A mayor of a town with an airport, for example, expressed concern over the recent bailout of Air Canada and the dynamics of the industry, specifically highlighting that Air Canada drove out the regional carriers by undercutting them and then left. This mayor and others have expressed support for regional air-carriers that stayed in place during the pandemic.

PERT Recommendation: Boost Tourism and Air Access

The Provincial Government should:

- Work with the tourism industry to develop a marketing campaign that promotes the province as a year-round tourist destination;
 - Advocate to the Federal Government for continued funding to support tourism and other small businesses impacted by COVID-19; and
 - Request the Federal Government urgently implement a program to restore high-priority national and international air service to the province. The Provincial Government, in collaboration with stakeholders, should issue a Request for Proposals for carriers to provide multi-year access and seek an exemption from the federal Competition Act and other federal regulations to protect the services offered by the successful entrant.
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Arts and Culture

The arts community is an important component of the province's culture and the tourism sector. The film industry is expanding, adding to the strong arts sector, building local expertise, and promoting broader exposure of the province. Artists have been adversely impacted by COVID-19.

Arts and culture contribute to community economic development by bringing community members together to create and use small businesses and not-for-profit organizations, and by attracting tourists. The arts also help develop talent, innovation, adaptability and many of the skills needed for the new economy.

PERT Recommendation: Support the Arts Community

The Provincial Government should:

- Increase funding to the arts community to assist recovery from COVID-19 and, in the longer term, establish a broader support framework.
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Community Economic Development – Communities at the Forefront

The Provincial Government's approach to rural economic development, with some exceptions, has shifted away from direct job creation and toward infrastructure, marketing, information services, and financial incentives.

Successful rural economic development models in this province have focused on community-led initiatives. Often this work has been led by dynamic leaders and communities that understand the challenges before them and build on their local and regional strengths.

Success stories include the Argentia Port Authority, Fogo Island, the Bonavista region, and the Labrador Fisherman's Union Shrimp Co-operative. These development successes have been driven by the communities and then actively supported by both the Provincial Government and by ACOA.

PERT Recommendation: Support Community-led Economic Development

The Provincial Government should:

- Continue to support and encourage local economic development initiatives that are community-led and that build on local and regional strengths.
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Big Reset – Social Compact Refocused

The link between social and economic development cannot be overstated. The province cannot have strong economic growth without all of its systems working toward a vibrant and socially just society. Some systems, such as health care and education, were developed in the 1960s and 1970s when the province had a young population, high birth rates, and low levels of technology. At the time, bricks and mortar was the only answer to providing services.

Times have changed. The province must adjust to current realities—new technologies and a greening economy, as well as an aging population and low birth rates—and adapt systems accordingly.

The province's model for health care delivery will have to be more responsive and rely on new technologies to provide different and improved levels of service. This is urgent: despite the highest per capita spending on health care, Newfoundland and Labrador has among the poorest outcomes in the country. Systems and processes must change.

As the province's population ages, the labour force will continue to shrink. It is unreasonable to expect the next generation to fund outdated, expensive systems that are often characterized by poor outcomes. With the aging of our population more will be expected of our young people. A smaller labour force will likely have to fund this system. Change is required to avoid placing an unreasonable burden on them.

The next generation must be given the foundational skills to enter the workforce and drive the economy. The province's K-12 outcomes, however, range from average to below average.

The Provincial Government spends the highest proportion of GDP of any province on post-secondary education (tied with Nova Scotia at 1.4 per cent).

Outcomes for much of the province's social spending are not evaluated and government tends to spend money with little to no assessment on impact. As outlined in subsequent sections, a reinvention of the provincial system is required from both an operational and social perspective.

The province's K-12 outcomes range from average to below average.

The Provincial Government spends the highest proportion of GDP of any province on post-secondary education.

Labour Market Development

A responsive and focused labour market development plan is critical in light of the demographic challenges and industrial revolutions faced by the province.

The World Economic Forum, in its future of jobs report, expects that technology-driven job creation will outpace job erosion over the next five years. Employees entering the work force will require a host of new skills. Current employees may need to retrain to be prepared for job changes. This is an issue of particular significance for low-income workers whose prospect of successful reemployment and/or career pivots can be limited by skill gaps and/or unequal access to services.

The transition of the workforce will require significant investment by employers and governments. The Labour Market Development Agreement (LMDA) is a provincially delivered federally-funded program. Much of the training currently funded by the LMDA targets traditional occupations that are in decline.

The LMDA can be better used to prepare the province's workforce for new opportunities. A good understanding of the needs of employers both current and future must be developed.

PERT Recommendation: Uplift Labour Skills — LMDA

The Provincial Government, working with the Federal Government, should:

- Prioritize adjustment funding programs for workers and begin to retrain workers for priority areas of the economy;
 - Include micro-credentials for displaced workers among funded skills development opportunities; and
 - Enhance current labour market information to reflect the changing labour market and opportunities in technology and the green economy.
-

The K-12 Education System

One of the key aspects of the social compact is a seamless education system from pre-school, through K-12 and post-secondary, to life-long learning. The most basic part of this is a foundational education for the province's young children. This requires that the K-12 system be refocused.

The province's small population should be an advantage. With nearly 64,000 K-12 students, the province should realize excellent achievement levels while customizing for the needs of every child. The structures in place; however, appear unable to adapt to smaller numbers, changing needs of students, technological advances, and current skill and knowledge requirements.

While the number of youth dropping out of school has declined since 2008-09, 1,172 students dropped out in 2017-18. Prospects for youth who do not complete high school are limited. Almost half (48 per cent) of those under 30 receiving Income Support benefits have not graduated high school or attained General Education Development (GED) high school equivalency.

Newfoundland and Labrador has two school districts—the Newfoundland and Labrador English School District (NLESD) and the Conseil scolaire francophone (CSF)—259 schools (100 urban and 159 rural) and a total student population of 63,721 (2019-20).

Of the 259 schools in the province, 45 have less than 50 students and 22 English-language schools have 25 or less students. This includes three schools with no students, and 11 with between one and 10 students.

In 2018, the Premier's Task Force on Improving Educational Outcomes made 82 recommendations in its report **Now is the Time**. Recommendations focused on math, reading, and inclusive education.

The Department of Education advises that 80 per cent of the recommendations and actions have been completed or are substantially underway, with the addition of \$42 million in new funds since 2018. Rather than looking critically at the best way to spend existing funds, new funding was provided to address gaps.

The challenge will come in how the implementation of the recommendations will be measured and evaluated against the additional investment. Despite having fewer students than ever before, additional teaching and other positions have been added at an annual cost of over \$22M without adequate assessment of whether these positions are being best allocated to achieve student outcomes.

Despite having fewer students than ever before, additional teaching and other positions have been added at an annual cost of over \$22M without adequate assessment of whether all positions are being best allocated to achieve student outcomes.

Currently, administration is divided between the Department of Education and the two school districts. The large staff complement that is not in the classroom, but at the district level is a concern, particularly given the modest size of the student population in the province. As well, the current administrative structure, which includes managers being in the union, is unusual and not conducive to responsible supervision and oversight.

Recommendations related to K-12 are urgent and should be undertaken within six months. Any savings realized by ending the school district structure are to be applied to the school system.

PERT Recommendation: Uplift Skills — Improve K-12 Student Success

The Provincial Government should:

- Assess the education system to identify the current gaps in education related to the changing labour market and the new economy;
 - Adapt the curriculum to better prepare children for the advanced technological economy and provide them with needed skills in math, science, reading, and computer science and promote self-managed learning and entrepreneurship;
 - Formalize an approach for community-based partners to work with youth to offer alternative education settings for 16- to 19-year olds who are struggling in the traditional classroom; and
 - Better use technology to supplement learning options.
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PERT Recommendation: Uplift Skills — Streamline K-12 Administrative Structure

The Provincial Government should:

- Streamline the administrative structure by eliminating the two school districts with a goal to spend less on administration and reinvest that money directly at the school level;
- Place program administration within the Department of Education and adopt a shared services model for HR, IT, payroll, maintenance, etc.;
- Ensure principals, vice principals, and other supervisory staff are not members of the Newfoundland and Labrador Teachers Association (NLTA);
- Dissolve volunteer school boards and replace with one volunteer Provincial School Advisory Council. This Provincial Council will be connected to existing School Advisory Councils to link parents, families, and communities more strongly to the school system to enhance collaboration and greater accountability;

- Change school opening and closing hours to an eight hour day for teachers so that they can use some non-teaching time during the work day for professional upgrading and collaboration; and
 - Enhance partnership approaches with Indigenous governments, organizations, and communities to ensure culturally appropriate curriculum and school approaches for all children to promote understanding and reconciliation.
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Teacher Training

The Faculty of Education at Memorial University must ensure its graduates know how to teach core subjects. Experts and parents indicate that the new reading and math specialists added in response to **Now is the Time** were necessary because K-6 classroom teachers no longer graduate from Memorial with adequate skills to teach these subjects.

Currently, new graduates teaching primary and elementary grades require professional development from the school system on how to teach math, reading, and computer skills. An education degree from Memorial University does not provide this competency to all graduates. These are basic skills that all teachers should possess.

PERT Recommendation: Uplift Skills — Strengthen Memorial University's Faculty of Education

Memorial University and the Department of Education should:

- Hire an independent expert to conduct a review of Memorial University Faculty of Education's curriculum and graduation standards to ensure that all new K-6 teachers can teach math, reading, basic technology, and computer skills.
-

Post-Secondary Education to Support Technology and the Green Transition

Memorial University and the College of the North Atlantic (CNA) can emerge as world leaders in the green economy. This should be an aspiration of the Newfoundland and Labrador education system.

The province provides a high level of subsidy to Memorial University and CNA and keeps tuition rates low. Given the province's fiscal situation, the cost of the post-secondary education (PSE) system must be addressed. While a Post-Secondary Review was announced in March 2019, PERT's task is to make recommendations to transition the province's economy within a challenging fiscal framework

While no one can argue the value of PSE as an economic driver and a social determinant of health, Newfoundland and Labrador's current level of investment in its PSE institutions is not sustainable. As an example, immediate efficiencies could be gained by consolidating the province's three nursing schools into one.

Being known as the "cheapest" university in Canada carries the implication of it being the lowest quality. Nothing could be further from the truth. Memorial University could deliver the same or better outcomes if PSE funding came from other sources.

Memorial and CNA must consider new methods of teaching and learning. While some work has been done in this area, COVID-19 has shown the immense capabilities and opportunities related to distance learning. PSE institutions worldwide were forced to re-imagine program delivery. Micro-credentials and online learning are now the norm. The learning of the future will not always require intense physical infrastructure.

Students in Newfoundland and Labrador have access to comprehensive student aid packages. The average debt load for PSE students in the province was around \$14,900 for 2018-19, compared to a Canadian average of around \$28,000. This is partially because of low tuition, but also because provincial aid is given in the form of a grant rather than a loan. While considering different funding models, it will be important to continue to ensure PSE remains affordable to students from low- and moderate-income families.

PERT Recommendation: Uplift Skills – Bring Consistency to Nursing Education

The Provincial Government should create one nursing school for the province.

The money that will be spent by the private sector in the transition of the province's economy will provide a significant opportunity for its educational institutions. Memorial and CNA must develop a Centre of Excellence focused on the green transition. This will allow the institutions to attract expertise and talent, develop global networks, partner with other institutions, learn from other countries, and identify the gaps and opportunities that lie ahead.

This is an opportunity to propel both Memorial University and CNA to the forefront nationally and internationally.

PERT Recommendation: Uplift Skills – Establish Centre of Excellence in Green Technology

Memorial University and the College of the North Atlantic should establish a Centre of Excellence in Green Technology, including research chairs in:

- Energy Development;
- Ocean and Marine Activities;
- Technology Development and Adoption;
- Computer Science and Artificial Intelligence; and
- Business Development.

Funding sources for the research chairs could include the province's Future Fund, national funding agencies, the institutions themselves, and the private sector.

To enable the changes needed to strengthen the province's PSE system and to enhance governance, the legislation supporting these institutions needs to be modernized.

PERT Recommendation: Uplift Skills – Update the College Act

The Provincial Government should amend the College Act, 1996 to:

- Ensure the Board of Governors has the authority to hire the President;
 - Allow the Board to appoint its own Chair after an appropriate and independent selection process;
 - Remove the ability of the Minister to override decisions of the Board with regard to academic programming and administrative policy; and
 - Enhance public accountability reporting in line with the Board's enhanced autonomy.
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PERT Recommendation: Uplift Skills — Update Memorial University Act and Increase Autonomy

The Provincial Government should:

- Amend the Memorial University Act to address board size, composition, and appointment of members and to enhance autonomy;
 - Review other areas of the Act with respect to autonomy and modernization;
 - Provide the Board of Regents the authority to hire the President;
 - Revise accountability reporting and budgeting in line with the Board's enhanced autonomy;
 - Make necessary policy changes to allow Memorial to be fully autonomous in setting tuition; and
 - Ensure the provincial student aid program reflects actual tuition costs to ensure affordability of post-secondary education for students from low to moderate income families.
-

Senior Care and Housing Options

In light of Newfoundland and Labrador's aging population, improving senior care is an immediate priority. Seniors need access to appropriate and affordable housing and care options, including home supports and other assistance, to remain independent. Seniors often are not able to access these options in their communities. Many seniors could live relatively independently with modest supports. Instead, they end up outside of their communities with a diminished quality of life, at great public expense, and often against their wishes.

Society has had many experiences with institutionalizing people who need supports and care. Orphanages and institutions for people experiencing disability are parts of the province's history that are now recognized as damaging, not only to the individuals who experienced these environments directly, but to society as a whole. The current approach to aging is reminiscent of those times. Creative and more appropriate solutions must be found.

Aging is being medicalized. That is, aging is viewed primarily as a disease and/or medical problem. This leads to over-prescribing medication, inappropriate use of chemical and physical restraints, overuse of bed rest, and more and longer hospitalizations leading to higher risk of infection, loss of mobility and, ultimately, unnecessary institutionalization in long-term care. This is expensive and leads to a lower quality of life.

PERT Recommendation: Improve Senior Care and Housing Options

The Provincial Government should:

- Institute a moratorium on building new long-term Care facilities and determine the right number and mix of seniors care and housing options, including supporting low-income seniors to maintain their own homes and have flexible support to remain at home;
 - Better integrate demographic trends, particularly the aging population, into planning across all government departments, agencies, and commissions;
 - In partnership with communities, develop a broadly focused healthy aging strategy. Work should be guided by the Age Friendly Communities philosophy; and
 - Prioritize investment under the National Housing Strategy, and the resulting bilateral agreement on housing with the federal government, to ensure new affordable housing and retrofits meet future needs based on demographic trends.
-

Health and Health Care

In November 2020, the provincial government launched Health Accord NL, a team led by Dr. Pat Parfrey and Sister Elizabeth Davis, tasked with reimagining the province's health care system. The team's mandate includes delivering a 10-year health accord with short, medium, and long-term goals for improved health care. The team has already highlighted the high cost of the province's health care system and its poor outcomes.

Health care is Newfoundland and Labrador's largest expense. Based on data from 2017, Newfoundland and Labrador spends more per capita on health care than any other province in Canada at \$6,443 per person (the Canadian average is \$5,196). Budget 2020 projects that Newfoundland and Labrador will spend over \$3 billion on health care in 2020-21 (compared with \$1.85 billion in 2004-05), representing 37.7 per cent of total expenditures.

Despite the large increase in spending, most health system performance outcomes and health outcomes have not improved.

Newfoundland and Labrador's health indicators and outcomes are generally among the worst in Canada.

The Health Accord team is positioned to make specific recommendations on moving to an efficient and effective health care system. The total amount allocated for health care spending is determined by the Provincial Government and the current escalating spending levels cannot be maintained.

Newfoundland and Labrador's health indicators and outcomes are generally among the worst in Canada.

As outlined in the Financial Plan, PERT is recommending a 4.15 per cent reduction per year for six years in operating grants to Health Authorities, with the Health Accord team determining the best way to implement.

PERT Recommendation: Deliver More Efficient Health Care

The Provincial Government should:

- Review the current structure and consolidate the four Regional Health Authorities into one; and
 - Expand the use of tele-health and distance medicine and adopt new technology and computer systems, with a focus on excellence in service delivery.
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The Current Social Safety Net

True economic recovery must happen in conjunction with addressing poverty and social exclusion and ensuring a strong social safety net. Many successes in this area have been achieved; the number of people receiving Income Support in the province has decreased almost 70 per cent since 1996 and the percentage of people living in poverty has been reduced from 19 per cent to 13 per cent in 2018.

The provincial government's job to reduce poverty is not finished. Additionally, a new equally important priority is emerging as the economy transforms itself, both in terms of technology and the green economy. With the challenging population shifts taking place, it is critical that young people are prepared. They need to have the best technology, math, and science skills possible. They will be required to power the new economy. Ultimately they will have to be more agile and more productive than what was required of the past two generations. The Province needs to ensure the education system provides the required foundational education to drive a green and technologically advanced economy.

Social programs first and foremost must be responsive and encourage active engagement of citizens in the economy and society. They must not marginalize citizens or keep them from realizing their full potential. The province's safety net, intentionally or unintentionally, has resulted in a high dependence on social programs.

Transfers to individuals, such as Employment Insurance, Income Support and the Guaranteed Income Supplement, are an important part of the social safety net. Newfoundland and Labrador has the lowest Economic Self-Reliance ratio of any province. This means that this province relies most heavily on transfers to individuals, with 20.1 cents of every dollar of personal income coming from federal and provincial government transfers.

Social programs and benefits, including Income Support and benefits delivered through the income tax system, need to be examined in terms of overall effectiveness, cost and impact on the labour market.

Community-based not-for-profit organizations play an important role in the province's social safety net. These organizations deliver many critical services, in particular to those who are chronically excluded from mainstream service delivery, such as people who are homeless, in active addiction and/or who move in and out of the criminal justice system. The method by which Government funds community organizations, the large number of organizations, and the lack of coordination between organizations are, however, significant issues.

An internal review undertaken in 2016-17 found that the provincial government funds more than 2,700 not-for-profit organizations. Not all of these are in social areas, with some focused on tourism, arts, sport, economic development, and others. Some organizations received funding from as many as six different departments. While this was in part a reflection of organizations being innovative and meeting overlapping mandates of multiple departments, it pointed to unnecessary complexities and inefficiencies.

PERT Recommendation: Strengthen the Social Safety Net

The Provincial Government should:

- Modify programs to eliminate disincentives for individuals to take-up employment opportunities when they become available; and
 - Revise funding programs based upon analysis, with a focus on partnering with community-based organizations to ensure responsive program and service delivery that is efficiently and effectively customized for real and changing needs and has measurable outcomes.
-

Immigration

Labour shortages are experienced by many technology companies, as well as in other sectors of the economy. Immigration is one means by which the province can grow its population, attract skilled workers to address labour shortages, welcome new ideas and create new businesses.

The Government of Newfoundland and Labrador's 2017 commitment to increase immigration to 1,700 permanent residents annually by 2022 was exceeded in 2019, when 1,849 permanent residents came to the province. A new target of 2,500 permanent residents annually by 2022 was set in February 2020.

PERT Recommendation: Support Immigration and Retention

The Provincial Government should:

- Tailor immigration programs to target individuals with high levels of skills in technology, math, computer science, and other knowledge areas needed to drive the green economy;
 - Build evidence-based, responsive programs to promote Newfoundland and Labrador globally to improve attraction, including tax incentive programs for new businesses and annual lists of high demand occupations;
 - Develop a plan to address low immigrant retention rates; and
 - Together with anti-racism groups and advocates, develop an anti-racism and inclusion action plan that contains a strong community education component.
-

Big Reset - The Financial Improvement Plan

Newfoundland and Labrador's financial challenges require a focused and immediate recovery plan. The Provincial Government's high expenditures, high deficit spending and high debt levels are not sustainable.

Continuing to add to the debt puts the province at risk of losing public services and of major layoffs across the public sector, risks that will be heightened if interest rates increase.

On the other hand, the Provincial Government can manage assets in a more professional way. The Provincial Government needs to act and demonstrate that it is focused on its finances. This will inspire confidence, stabilize or increase credit ratings, and lower interest rates. If, with the reprofiling of assets, the Province uses the proceeds to reduce its debt, the cost of servicing debt, currently the second largest expense, will decline.

The Province holds many assets that could provide better value if rotated to new ownership. The sale of certain assets for a Future Fund will facilitate the province's transition to a green economy, spur economic growth, and reduce the province's debt load. The Future Fund can be used for only two purposes: to reduce debt and to fund the Green transition.

With a thoughtful, balanced, and well-developed implementation plan this province should be successful in the global competition that is underway for the billions of private sector dollars of capital redirected to green projects, technologies, and creating a forum of expertise.

The plan that follows proposes a combination of tax increases and expenditure reductions with the intent of moving Newfoundland and Labrador toward a balanced budget within six years. While 2021 will primarily be a planning year, our analysis assumes some changes will take place in the upcoming fiscal year (2021-22).

With assumptions developed by PERT and in conjunction with the Department of Finance, a “base case” economic and fiscal forecast was outlined in the table below. This base case provides a sense of the magnitude of the province’s potential deficit for the next six years.

Summary of Proposed Fiscal Changes (\$ Millions)

| Year | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | Total |
|---|-----------|-----------|-----------|-----------|-----------|---------|-----------|
| Annual Tax Revenue Change | 155.8 | 320.1 | 289.1 | 274.0 | 271.6 | 259.8 | 1,570.3 |
| Proposed New Taxes ¹ and Measures | - | 114.0 | 114.0 | 114.0 | 114.0 | 114.0 | 570.0 |
| Annual Expenditure Reduction | 76.5 | 424.5 | 571.9 | 719.4 | 866.5 | 894.5 | 3,553.2 |
| Total New Measures | 232.2 | 858.5 | 975.0 | 1,107.4 | 1,252.1 | 1,268.4 | 5,693.6 |
| Reduction in Debt Expenses ² | 3.5 | 25.1 | 49.9 | 78.5 | 111.2 | 149.2 | 417.5 |
| Deficit Without the Plan | (1,369.9) | (1,384.3) | (1,340.9) | (1,293.1) | (1,241.9) | (639.5) | (7,269.6) |
| Annual (Deficit) or Surplus With the Plan of Action | (1,134.2) | (500.6) | (316.0) | (107.2) | 121.4 | 778.0 | (1,158.6) |

¹ New tax measures include Inheritance tax, gift tax, wealth tax, second household tax, etc.

² This does not include the sizeable reduction in debt and financing expenses that will be available to the Province when assets are reconfigured and proceeds are applied to get debt reduction and green economy transition.

This table does not include any allocation to the Future Fund.

Source: Department of Finance; PERT

Personal income taxes and sales taxes were the top two sources of revenue for Newfoundland and Labrador in 2019-20. Despite the 2016 increase in personal income tax rates, the current rates for every tax bracket (except the lowest bracket) are lower than they were in the early 2000s. Newfoundland and Labrador’s personal income tax rates are in about the middle of the pack when compared to other provinces.

In 2018, about 36 per cent of Newfoundland and Labrador tax filers did not pay any provincial tax. Fifty per cent of tax filers paid more than 96 per cent of the total personal income tax collected. Less than 7 per cent of tax filers had a taxable income greater than \$100,000, but these individuals paid over 40 per cent of total personal income tax

revenue earned by the province. This indicates that a small number of people are paying a high proportion of personal income taxes in the province.

PERT Recommendation: Increase Revenue through Modest Tax Increases

The Provincial Government should:

- Increase all personal income tax rates by one percentage point and introduce tax credits for the lowest income group to offset the increase;
 - Increase the corporate income tax rate by two percentage points;
 - Increase the HST by one percentage point and consider expanding the base;
 - Increase the gasoline tax by 1.5 cents per litre;
 - Increase the payroll tax by 0.5 of a percentage point;
 - Increase the tobacco tax by 5.5 cents per cigarette; and
 - Increase fees and fines by 15 per cent;
-

Wealth Taxes

Inheritance and wealth taxes are generating discussion in Canada. No province in Canada has a direct inheritance tax. PERT is not aware of any province that has a wealth tax. Canada's Office of the Parliamentary Budget Officer indicates that a one per cent tax on the net wealth of the 13,800 wealthiest families in Canada could raise \$5.6 billion. The Office did not go into provincial-level detail.

Countries including Norway, Argentina, Spain and Switzerland have a wealth tax. In the September 2020 Speech from the Throne the Canadian government said it would "identify additional ways to tax extreme wealth inequality."

While no province currently has an inheritance tax, Newfoundland and Labrador, like other provinces, already has a structure in place for the administration and collection of probate fees on wills. Probate fees in the province are low and are only intended to

offset the cost of providing the service, rather than be a revenue generator as they are in some other provinces.

Newfoundland and Labrador appears to be the only province in the country without a Provincial Government property tax⁷. In this province, many people live in, and even own, second properties in unincorporated areas and therefore do not pay property taxes. In many cases, services (such as snow clearing) are provided in these areas at no cost to property owners. The 2018 Independent Tax Review Committee recommended that government consider the implementation of a provincial property tax similar to that in other provinces.

A number of provinces impose additional taxes on expensive or heavy passenger vehicles, both as a way to generate revenue and tax higher emitting vehicles. British Columbia's automobile sales tax increases incrementally from seven per cent to 20 per cent for new vehicles worth over \$150,000. Currently, Newfoundland and Labrador does not have any differential tax or registration fee. A higher tax on passenger vehicles over a certain value, and a lower, or even temporarily a zero sales tax, on electric vehicles, could encourage the use of lower emitting and electric vehicles, as well as generate revenue.

PERT Recommendation: Implement Wealth and Property Taxes

The Provincial Government should:

- Work with the Federal Government and other provinces and territories to implement an annual wealth tax of one per cent on wealth exceeding \$10 million or an agreed upon threshold;
- Increase probate fees for \$1 million inheritance to \$50,000, with other categories increased proportionately. This is an interim measure while exploring the

⁷ Independent Tax Review Committee. Tax Review Report. Independent Tax Review Committee Newfoundland and Labrador, 2018.

establishment of an inheritance tax in cooperation with the Federal Government and other provinces and territories;

- Implement a luxury tax on high-end vehicles—electric and hydrogen vehicles would be exempt;
 - Implement a gift tax for the transfer of all types of assets worth over \$10,000;
 - Establish a minimum tax to be applied to all residences outside of incorporated municipalities. This tax should be developed in consultation with municipal governments and this new revenue should be part of the ongoing municipal legislative review;
 - Develop a tax for second residences/vacation homes valued at \$100,000 or more owned by individuals in addition to their primary residence, no matter the location; and
 - Institute a progressive tax on all land transfers, for example 0.25 per cent for up to \$300,000, 0.35 per cent for \$300,001 to \$600,000, and 0.5 per cent for properties over \$600,000.
-

Expenditure Reduction

Expenditure reduction is the major component of reducing the fiscal gap. All government departments and entities will be subject to budget adjustments and program evaluations. Leaders in all enterprises will have their compensation tied to the achievement of organizational culture change to encourage prudent management within a balanced financial envelope. Everyone will have to change how business is undertaken. These proposed budgetary adjustments include the assumption that expenditures will not increase. Inflationary pressures will have to be absorbed within the fiscal framework provided.

Core government departments have been subject to several cost-cutting measures in recent years that other provincial entities have avoided. For this reason, we propose that these next reductions in core government be less than for many other entities. Greater savings will be possible with a fundamental change in how government does its business.

The Board of Regents of Memorial University and the Board of the College of the North Atlantic will be given more autonomy but also be held more accountable under the proposed Governance reset. A reduction in grants is proposed for both institutions.

PERT Recommendation: Reduce Expenditures

The Provincial Government should:

- Reduce its core expenditures by five per cent, with no expenditure growth for six-years;
 - Reduce its operating grants to Memorial University and the College of the North Atlantic by five per cent per year over six years, for a total reduction of 30 per cent;
 - Reduce its operating grants to the Regional Health Authorities by 4.15 per cent per year over six years, for a total reduction of 25 per cent;
 - Reduce administrative costs for the K-12 system and allocate these additional funds to classrooms, to support the teaching of math, technology, science, computer science, and the promotion of entrepreneurship;
 - Reduce operating grants to Newfoundland and Labrador Housing and Legal Aid by two per cent; and
 - Reduce operating grants to other government agencies by 20 per cent.
-

Reconfiguration of the Province's Asset Portfolio

The fiscal situation requires that the Provincial Government consider all options for raising funds. Reconfiguring its asset portfolio is timely and necessary. Proceeds from the sale of assets should be used to reduce the province's debt load and to help fund the transition to the green economy. New ownership creates new entrepreneurship opportunities for the province, crucial for employment and for developing scale and size for the private sector. The Province's assets can and should be put to better use to reduce the debt burden and to fund the transition to a green economy.

Funds raised through the sale of assets should not be used to offset normal government operating costs. They should only be used for debt repayment or for the Future Fund.

Governments across Canada have been exploring the sale of business lines and assets which no longer require government ownership for service to continue. In many circumstances, with the pace of technology development, continued government ownership is a hinderance to growth, technology diffusion, and more innovative approaches to service delivery. Many services traditionally provided by government should be transferred to the private and not-for-profit sectors.

The intent of asset sales is to reduce costs and provide improved services and better outcomes for citizens. It is also a rebalancing of the public and private sectors. The public sector in the Province is too large. Its high salaries, benefits, and retirement payments are ultimately a tax on those outside the public service and the young people that will be the workforce of tomorrow.

PERT Recommendation: Reconfigure the Province's Asset Portfolio

The Provincial Government should:

- Bundle and sell all or a majority interest or create a long term concession in its motor vehicle and registry of deeds system;
 - Revise legislation to require that all unregistered land be registered within eight years. After this period, all unregistered land would revert to the Crown;
 - Sell all or a majority interest in the Newfoundland Labrador Liquor Corporation, and review how the Provincial Government taxes alcohol; and
 - Sell Marble Mountain ski resort and related assets.
-

Request for Federal Funding Changes

Equalization is formula-based, using economic and fiscal data. It is designed to address variations in provincial revenue-raising capacity on a per capita basis to ensure all Canadians have access to equitable social programs. It does not take into account differences in expenditure needs or variations in the cost of public services in particular jurisdictions. The equalization formula is usually reviewed every five years and was renewed in 2019. Newfoundland and Labrador has not received an equalization payment since 2007-08. The province has consistently requested changes to the program.

There are challenges with the equalization system. The current formula used to calculate payments places Newfoundland and Labrador at a disadvantage compared to other provinces, largely owing to the treatment of natural resource revenue. These revenue streams are temporary and are in part owned by future generations. Other issues include the disproportionate weight given to larger provinces, namely Ontario and Québec, in establishing payment caps as well as a lack of sensitivity to changing circumstances, such as aging populations and the cost of service provision. The equalization formula will have to be revisited⁸.

PERT Recommendation: Advocate for Change to Federal Transfer Programs

The Provincial Government should continue to explore with the Federal Government and other provinces:

- The potential of establishing a new institutional federal loan facility that would replace the Bank of Canada's Provincial Bond Purchase Program, to enable provincial governments to borrow 10- and 30-year bonds at federal borrowing rates;

⁸ Mintz, Jack M. "Fairness for Newfoundland and Labrador: It Starts with Equalization." Schroeder Policy Group, October 4, 2019.

- Amending the Equalization program to remove revenues from non-renewable resources from the fiscal capacity cap;
 - Changing the per capita approach to the Fiscal Stabilization Program, modifying the thresholds for declines in non-resource revenues and revising how resource revenues are treated; and
 - Modifying the Canada Health Transfer such that it provides a higher percentage of provincial and territorial health care expenditures.
-

Conclusion

Newfoundland and Labrador is in a fiscal crisis and immediate changes are required. Decisive action **right now** by the provincial government and by the people of the province is the only way to a stable future in the best interests of Newfoundlanders and Labradorians.

With determination and focus, this province will be in a stronger fiscal position within six years. This province has been in difficult situations before; the province has always managed to come together. This is now one of those times when party politics and personal interests must be set aside.

There are key questions before us and their answers will ultimately determine the path we take. **What happens when the province can no longer borrow? What if interest rates rise, government runs out of money, and quickly has to shut down services?** Just as important: **How much debt is reasonable to pass on to the province's children and grandchildren?**

These are questions PERT has struggled with as we developed this Plan. Our conclusion is that a debt wall is fast approaching and it is unreasonable to pass high debt levels to our children. Failing to take action now could accelerate out-migration of our youngest and brightest and lead to a downward spiral of the economy and the Province.

The Plan outlined in this document focuses on managing the province's finances in a sensible and prudent way over the next six years as well as a longer-term approach to economic development. The Plan allows for growth in the economy in the longer term while still allowing for Government to adjust its spending.

The provincial government needs to reset how it does things and then prepare to become leaders in Canada and the world. The Team looked at the bigger strategic items that have paralyzed the province and prevented action. This report has not focused on the individual program level. This work has been done many times over and we already knew the areas required for change.

All levels of government, labour, and the private sector will have to work together to transform the economy. The provincial and federal governments must partner to meet Canada's climate change commitments and must also work in true partnership with Indigenous governments and organizations. Together the province can bundle its assets and seek partners to further develop them.

None of these things will be possible unless we accept our financial situation and unless we are prepared to change our approach to governance and accountability in the public, not-for-profit and private systems.